Nationwide Economics

Weekly Economic Review & Outlook

August 21, 2023

Consumers are propelling growth

Retail sales spiked in July as consumers got a head start on back-to-school spending. While the Fed would like to see a slowing of demand in order to promote disinflation, it appears that economic activity is accelerating — possibly setting the stage for further Fed rate hikes and helping to boost long-term Treasury yields. In other news, home construction was solid again in part due to a lack of supply of existing homes to satisfy housing needs.

Consumer activity increases ahead of the school year

Retail sales unexpectedly surged in July by 0.7 percent, and core retail sales (which excludes auto sales, gas stations, and building supplies) climbed by 1.0 percent. The outsized growth was due to parents getting a head start on back-to-school shopping, as seen in the large gains of sales at clothing and sporting goods stores. This confirmed a report from the National Retail Federation which showed that more than half of families pulled forward their back-to-school purchases into July. Spending at restaurants also remained strong as consumers continue to lean into services spending this summer.

Amazon's Prime Day in mid-July also factored into the spike in sales as it boosted non-store retail spending by 1.9 percent for the month. Extreme heat in many parts of the country likely also led consumers to purchase goods online rather than venturing to brick-and-mortar stores. The 10.3 percent 12-month growth in online spending far outpaces the 3.2 percent annual increase for overall retail sales as consumers increasingly exhibit price conscious behavior.

The robust July retail sales are another sign that the economic activity has accelerated over the course of this year despite the headwinds from higher interest rates. We expect well-above 3.0 percent annualized real GDP growth in the third quarter, precluded by a 2.4 percent growth rate in the second quarter, which was up from 2 percent in the first quarter. While there is increasing optimism for a no landing or a soft landing for the economy in the near term, continued hot readings may force the Fed to lift rates even higher at upcoming meetings, raising the odds of a hard landing in 2024. Even if the Fed elects to hold interest rates steady, officials are likely to keep rates higher for longer. And in the meantime, the bellwether 10-year Treasury yield jumped to an intraday high of 4.32 percent last week and mortgage rates have again soared above 7 percent.

Another solid month for home construction

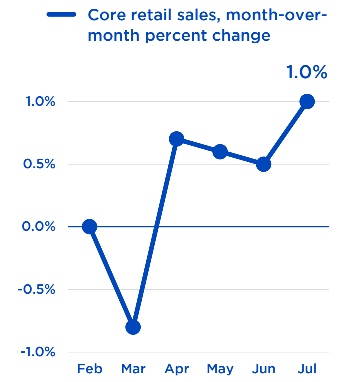
Solid home construction continued in July as housing starts climbed to an annual rate of 1.45 million units — within the relatively narrow band for starts posted over the past year. Single-family starts were up 9.5 percent from a year ago as home builders have been buying down the mortgage rate to around 5 percent from the market rate of around 7 percent. The very low inventory of existing homes on the market has left many prospective homebuyers with few options, shifting more demand to the new home market. Builders are responding by picking up the pace of construction.

LEI continues to point to recession

The Index of Leading Economic Indicators (LEI) fell 0.4 percent in July. While this was the smallest decline since August 2022, the index has still declined for 16 straight months. July's decrease was fueled by declining new orders for manufacturers and an erosion in consumers' expectations for business conditions. Offsetting this to some extent were lower initial jobless claims from June to July and the jump in equity markets during July — both of which have reversed direction in August.

The LEI continues to strongly point to a likely recession, with a year-over-year decline of 7.5 percent — up just slightly from June. The was the 13th straight month that this key recession measure has been negative.

Core retail sales spike in July



The rise in core retail sales in July was the strongest since January as consumer demand continued to show strong momentum.

LEI is still pointing to recession

The year-on-year change in the LEI continues to indicate that a recession is coming as it was deeply negative again in July.

Source: Bureau of Labor Statistics; University of Michigan

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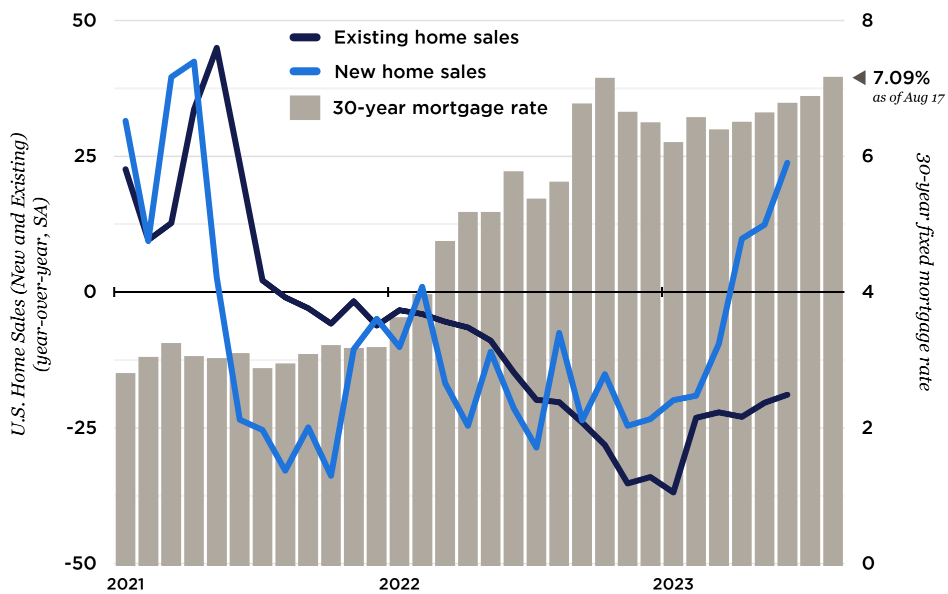
The Week Ahead

Here's our outlook for the days ahead. Subscribe to [Daily Insight](#) for updates throughout the week.

Existing Home Sales
Aug 22

Existing home sales still slumping

Current homeowners remain extremely reticent to list their homes for sale knowing that a new purchase could more than double their mortgage rate. As a result, the supply of existing homes remains historically low, underpinning home prices. Mortgage rates rose over June and July and likely deterred some transactions even with the typical increase in summer sales activity. We expect existing home sales to slow further in July to an annualized pace of 4.10 million units — once again approaching January's recent slow pace.



Sources: Census Bureau; Haver Analytics, Bloomberg

New Home Sales
Aug 23

Builder incentives should keep new sales buoyant

The new home market has benefitted from the lack of existing home supply forcing more buyers to seek new construction. Builders are also offering incentives to keep financing rates below market levels. The NAHB housing market survey reported strong traffic of prospective buyers for new homes and an uptick for present single-family home sales in July. We expect new home sales to rise 0.9 percent to an annualized pace of 703,000 in July following June's 2.5 percent decline.

Durable Goods Orders
Aug 24

Durable goods orders headline drop, core growth

We expect July's durable goods report to post a marked decline due to Boeing aircraft orders sharply decreasing to 52 from 304 in June. However, excluding transportation, the reading likely increased 0.2 percent in July. Compared to June, a larger share of business owners reported capital outlays in the last six months and plan to pursue capital expenditures in the near future. Additionally, manufacturing activity in July rose as both production and new orders climbed following an unexpected surge in motor-vehicle output, which should positively influence July's durable goods orders print.

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Additional Economic Indicators

Previous Week's Indicators

Previous Week's Indicators	Period	Actual	Previous
Retail Sales Advance MoM	July	0.7%	0.2%
Retail Sales Ex Auto and Gas	July	1.0%	0.3%
Import Price Index MoM	July	0.4%	-0.2%
Import Price Index ex Petroleum MoM	July	0.0%	-0.3%
Empire Manufacturing	August	-19.0	1.1
Business Inventories	June	0.0%	0.2%
NAHB Housing Market Index	August	50	56
Housing Starts	July	1452k	1434k
Housing Starts MoM	July	3.9%	-8.0%
Building Permits	July	1442k	1440k
Building Permits MoM	July	0.1%	-3.7%
Industrial Production MoM	July	1.0%	-0.5%
Capacity Utilization	July	79.3%	78.9%
Initial Jobless Claims	Week ending Aug. 12	239,000	248,000
Philadelphia Fed Business Outlook	August	12.0	-13.5
Leading Index	July	-0.4%	-0.7%

This Week's Indicators

This Week's Indicators	Release Day	Period	Forecast*	Previous
Existing Home Sales	Tuesday	July	4.10m	4.16m
Existing Home Sales MoM	Tuesday	July	-1.4%	-3.3%
New Home Sales	Wednesday	July	703k	697k
New Home Sales MoM	Wednesday	July	0.9%	-2.5%
Initial Jobless Claims	Thursday	Week ending August 19	244,000	239,000
Durable Goods Orders	Thursday	July P	-4.2%	4.6%
Durables Ex Transportation	Thursday	July P	0.2%	0.5%
Cap Goods Orders Nondefense Ex Air	Thursday	July P	0.0%	0.1%
U. of Mich. Sentiment	Friday	August F	71.1	71.2

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